

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

MULTI-LAKE SEWER AUTHORITY
TOWNSHIPS OF DEXTER, LYNDON, UNADILLA AND
PUTNAM

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2007

MULTI-LAKE SEWER AUTHORITY

WATER & SEWER AUTHORITY BOARD

Deb Alvarez	Trustee
Pat Carney	Trustee
Michael Gross	Trustee
Joe Mahler	Trustee
Maryann Noah	Chairperson
Steven Piatt	Secretary
David Steinbach	Vice-Chairperson
Jack West	Treasurer

WATER AND SEWER AUTHORITY ATTORNEY

Keusch & Flintoft

WATER AND SEWER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITORS' REPORT	
MANAGEMENT DISCUSSION AND ANALYSIS	6
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	10
Statement of Revenues and Expenses	11
Statement of Operating Expenses	12
Statement of Cash Flows	13
NOTES TO FINANCIAL STATEMENTS	15
SUPPLEMENTARY INFORMATION	22



PFEFFER • HANNIFORD • PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

May 2, 2007

Multi-Lake Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying financial statements of the Multi-Lake Sewer Authority as of and for the year ended March 31, 2007. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Multi-Lakes Sewer Authority, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Multi-Lakes Sewer Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION AND
ANALYSIS

Management Discussion and Analysis March 31, 2007

Within this section of the Multi-Lake Sewer Authority's financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2007. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues and Expenses which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water and sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$18,765,514. This is a \$259,355 decrease from last year's net assets of \$19,024,869.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>3/31/2007</u>	<u>3/31/2006</u>
Current and other assets	\$ 1,648,101	\$ 1,608,526
Capital assets, net	<u>17,180,809</u>	<u>17,471,236</u>
Total assets	<u>18,828,910</u>	<u>19,079,762</u>
Accounts payable	55,233	45,320
Deposits	<u>8,163</u>	<u>9,573</u>
Total liabilities	<u>63,396</u>	<u>54,893</u>
Net assets:		
Invested in capital assets, net of related debt	17,180,809	17,471,236
Unrestricted	<u>1,584,705</u>	<u>1,553,633</u>
Total net assets	<u>\$ 18,765,514</u>	<u>\$ 19,024,869</u>

Summary of Changes in Net Assets

	<u>3/31/2007</u>	<u>3/31/2006</u>
Operating revenues	<u>\$ 805,542</u>	<u>\$ 768,705</u>
Operating expenses		
General	183,512	191,846
Sewer	<u>895,123</u>	<u>929,729</u>
Total operating expenses	<u>1,078,635</u>	<u>1,121,575</u>
Operating (loss)	(273,093)	(352,870)
Non-operating revenues (expense), net	<u>(30,207)</u>	<u>4,402</u>
Net (loss) before capital contributions	(303,300)	(348,468)
Capital contributions	<u>43,945</u>	<u>184,218</u>
Net (loss)	(259,355)	(164,250)
Beginning net assets	<u>19,024,869</u>	<u>19,189,119</u>
Ending net assets	<u>\$ 18,765,514</u>	<u>\$ 19,024,869</u>

Capital and Debt Administration

As of March 31, 2007, the Authority does not have any outstanding long-term debt in the form of bonds or loans payable.

The Authority has recently been approved for third quarter 2007 low interest funding from the State Revolving Fund for the upgraded wastewater treatment plant improvements. The upgraded treatment plant is part of the Authority's plan to comply with its groundwater discharge permit from the DEQ. Design engineering has been completed, and the Authority anticipates construction beginning in the summer of 2007. The Washtenaw County Board of Public Works has been assisting the Authority in obtaining SRF financing, and will facilitate the successful completion of this major project. New treatment will be provided by two oxidation ditches with a final clarifier.

The Authority spent \$38,808 in equipment and improvements and \$78,937 with the expansion.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to remain constant to slowly rising, with several new users expected to be added during the fiscal year. The Authority has a strong cash position and is unencumbered by debt.

It is expected that the increase in revenue experienced in the fiscal year March 31, 2007 will continue in future years. An additional system expansion is underway that will bring additional users into the system.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the authority and its customers. During this fiscal year, the Authority's electrical and heating costs increased by nearly 20% from the prior year. If such trends continue, these costs may be passed on to customers, who are also enduring higher energy costs.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 12088 North Territorial Road, Dexter, Michigan 48130.

BASIC
FINANCIAL
STATEMENTS

MULTI-LAKE SEWER AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2007

ASSETS

CURRENT ASSETS

Cash - operations	\$ 272,628	
Accounts receivable - sewer	314,257	
Accounts receivable - other	3,246	
Prepaid expense	25,245	
Inventory	<u>2,775</u>	
Total current assets		\$ 618,151

RESTRICTED ASSETS

Cash - construction	248,599	
Cash - capital replacement	773,188	
Cash - agency	<u>8,163</u>	
Total restricted assets		1,029,950

PROPERTY, PLANT AND EQUIPMENT

Land	123,000	
Leasehold improvement	88,053	
Sewer system	19,414,737	
Equipment	<u>127,408</u>	
	19,753,198	
Less: accumulated depreciation	<u>(2,904,712)</u>	
Net property, plant and equipment		16,848,486

CONSTRUCTION IN PROGRESS

		<u>332,323</u>
Total assets		18,828,910

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 18,504	
Due to member townships	36,729	
Due to others - escrow	<u>8,163</u>	
Total current liabilities		<u>63,396</u>

NET ASSETS

NET ASSETS

Invested in capital assets, net of related debt	17,180,809	
Unreserved - sewer	<u>1,584,705</u>	
Total net assets		<u>\$ 18,765,514</u>

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2007

OPERATING REVENUES		
Billings	\$ 782,824	
Grinder pump sales	<u>22,718</u>	
Total operating revenues		\$ 805,542
OPERATING AND ADMINISTRATIVE EXPENSES		
		1,078,635
Operating income (loss)		<u>(273,093)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	40,655	
Member debt transfers	(105,042)	
Miscellaneous income	29,380	
Rental income	<u>4,800</u>	
Total non-operating revenues (expense)		<u>(30,207)</u>
Net (loss) before capital contributions		(303,300)
CAPITAL CONTRIBUTIONS		
Tap-in		<u>43,945</u>
Change in net assets		(259,355)
RETAINED EARNINGS, APRIL 1, 2006		<u>19,024,869</u>
RETAINED EARNINGS, MARCH 31, 2007		<u><u>\$ 18,765,514</u></u>

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF OPERATING AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED MARCH 31, 2007

OPERATING EXPENSES

Contracted services	\$ 34,750
Depreciation	408,172
Operator salary and wages	127,933
Retirement	2,482
Insurance - health	5,052
Supplies	72,860
Repairs and maintenance	34,143
Utilities	105,350
Grinder pumps	50,295
Telephone	5,346
Billing charges	213
Tap-in fees	37,905
Payroll taxes	<u>10,622</u>
Total operating expenses	<u>895,123</u>

ADMINISTRATIVE EXPENSES

Bank charges	3,465
Insurance - general	40,280
Office expenses	5,403
Miscellaneous	7,962
Printing and postage	449
Authority per-diem fees	4,075
Payroll services fees	2,359
Accounting and audit fees	7,500
Legal fees	6,271
Permits	4,352
Miss-Dig and inspection fees	4,750
Salaries and wages	57,323
Retirement	5,304
Health insurance	5,950
Payroll taxes	3,872
Education	232
Computer support	1,645
Maintenance	10,750
Engineering	3,695
Utilities	2,555
Telephone	2,235
Billing	1,594
Mileage	<u>1,491</u>
Total administrative expenses	<u>183,512</u>

Total operating and administrative expenses	<u><u>\$ 1,078,635</u></u>
---	----------------------------

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2007

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 775,053
Payments to vendors	(425,586)
Payments to employees	<u>(185,256)</u>

Net cash from (used in) operating activities \$ 164,211

CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Transfer to member townships	(105,042)
Acquisition and construction of capital assets	(117,745)
Tap in fees received	<u>43,945</u>

Net cash from (used in) capital and related
financing activities (178,842)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	40,655
Rental income	4,800
Other income	<u>29,380</u>

Net cash from investing activities 74,835

Net increase in cash and cash equivalents 60,204

CASH AND CASH EQUIVALENTS AT APRIL 1, 2006 1,242,374

CASH AND CASH EQUIVALENTS AT MARCH 31, 2007 \$ 1,302,578

RECONCILIATION OF OPERATING (LOSS)

TO NET CASH PROVIDED (USED IN) OPERATING ACTIVITIES

Operating (loss)	\$ (273,093)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation expense	408,172
Changes in assets and liabilities	
Receivables, net	(30,489)
Prepaid expenses	51,118
Accounts and other payables	<u>8,503</u>

Net cash provided by operating activities \$ 164,211

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Multi-Lake Sewer Authority was incorporated on October 4, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. The two incorporating municipal entities are Dexter and Lyndon Townships. The Townships of Putnam and Unadilla joined the Authority at a subsequent date.

The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The Authority Board is composed of four voting representatives from Dexter Township, two voting representatives from Lyndon Township, one voting member from Unadilla Township, and one voting member from Putnam Township. Each representative serves a term of four years. The two Townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective Township.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Authority is considered an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The board has elected also to follow private sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF ACCOUNTING - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

C. MANAGEMENT'S ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the Authority is in accordance with Act 196 PA 1997. The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>1,202,578</u>	<u>1,244,223</u>
Total deposits	<u><u>\$ 1,302,578</u></u>	<u><u>\$ 1,344,223</u></u>

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

A summary of changes in fixed assets and depreciation is as follows:

	Balance 4/1/06	Additions	Balance 3/31/07
Sewer system	\$ 19,414,737	\$	\$ 19,414,737
Equipment	127,408		127,408
Land	123,000		123,000
Land improvements	49,245	38,808	88,053
Total cost	19,714,390	38,808	19,753,198
Less accumulated depreciation	2,496,540	408,172	2,904,712
Net fixed assets	<u>\$ 17,217,850</u>	<u>\$ (369,364)</u>	<u>\$ 16,848,486</u>
Construction in progress		<u>\$ 332,323</u>	

Depreciation for the sewer system, equipment, improvements and software paid by operating income is charged as an expense against their operations.

Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Sewer System	50 years
Equipment, Furniture and Software	5 - 10 years

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Land is considered a capital asset regardless of initial cost. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance 04/01/06	Ending Balance 03/31/07
Current Assets		
Cash and cash equivalents	\$ 245,956	\$ 272,628
Restricted Assets		
Cash and cash equivalents	996,418	1,029,950
Total	<u>\$ 1,242,374</u>	<u>\$ 1,302,578</u>

NOTE 6 - LEASE AGREEMENTS

The Authority has two lease agreements with each of the following entities, Chelsea Fire Department and Dexter Fire Department. The lease agreements call for monthly rents of \$400 for Chelsea and Dexter Fire Departments each and their pro-rata share of all heat, water, gas, oil and other utilities. The lease agreements for the Chelsea Fire Department and Dexter Fire Department were for a period of two years.

NOTE 7 - SEWER BILLINGS

The system currently has 1,412 users. Sewer users, with the exception of those in Gregory, are billed \$140.16 per quarter for service.

The quarterly charges are composed of the following:

Operation and maintenance	\$ 99.60
Reserve for debt service	21.00
Reserve for equipment replacement	19.56
Total	<u>\$ 140.16</u>

Users in Gregory are billed quarterly as follows:

Operation and maintenance	99.60
Reserve for equipment replacement - Gregory	6.00
Reserve for equipment replacement - Multi-Lakes	12.24
Total	<u>\$ 117.84</u>

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 8 - SYSTEM EXPANSION - PROJECT UNCERTAINTIES

The County entered into a lease agreement dated October 1, 1994, with the Townships of Dexter and Lyndon, located in Washtenaw County (the "Townships"). The lease agreement totaled \$8,900,000, which represented the amount of bonds sold by the County to finance the Multi-Lake Sanitary Sewer System Project (the "System"). The Townships pay semi-annually to the County amounts sufficient to cover the debt service requirements, including agent fees and other related costs.

The Multi-Lake Sewer Authority (the "Authority"), through a sublease with the Townships (who lease the project for the county), is required to operate, maintain, repair, insure and manage the system. Ownership of the system will be transferred to the Authority at no cost after the bonds have been paid in full.

The original lease agreement entered into between the County, the Authority and the Townships for the construction of the system and financing thereof indicated that Dexter Township would levy special assessments totaling approximately \$7.6 million. However, upon preparations and confirmation of its special assessments roll, Dexter Township actually levied approximately \$5.3 million. While a variety of factors appear to have contributed to this difference, there is concern by all parties to the contract as to Dexter Township's ability to satisfy its future lease payment obligations.

Presently, management of the Washtenaw County Department of Public Works believes that remedies that are available to the County in the event Dexter Township is unable to satisfy its lease obligations are sufficient to provide the necessary funding to meet the County's debt service requirements for the bonds issued to finance this project. Accordingly, no fund liability has been recorded by the County for any contingencies relative to this matter.

The Authority and County currently have contracted with new customers outside the sewer service area to provide service.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

NOTE 10 - ACCOUNTS RECEIVABLE

The Authority's billing periods are as follows:

April	through	June
July	through	September
October	through	December
January	through	March

Thus, accounts receivable includes both billed receivables through December 2006 and an estimate of the January through March 2007 billings. The following is a schedule of the Authority's accounts receivable:

Each year accounts receivable over 90 days are placed on the tax roll of the applicable township.

<u>Estimated Unbilled</u>	<u>Current</u>	<u>Over 30 days</u>	<u>Over 90 days</u>	<u>Total</u>
<u>\$ 193,391</u>	<u>\$ -</u>	<u>\$ 104,204</u>	<u>\$ 16,662</u>	<u>\$ 314,257</u>

NOTE 11 - INVENTORIES

Inventories of the sewer fund are valued at the lower cost or market. Cost is determined on the first in, first out basis. A physical inventory was taken at March 31, 2007. The authority's only inventory at March 31, 2007 was 1 grinder pump.

SUPPLEMENTARY
INFORMATION

MULTI-LAKE SEWER AUTHORITY
SCHEDULE OF OPERATIONS - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING REVENUES			
Billings	\$	\$ 782,824	\$
Interest		40,655	
Grinder pump sales		22,718	
Miscellaneous		29,380	
Rental income		4,800	
	<u>\$ 933,244</u>	<u>\$ 880,377</u>	<u>\$ (52,867)</u>
 OPERATING AND ADMINISTRATIVE EXPENSES	 <u>\$ 933,244</u>	 <u>\$ 1,078,635</u>	 <u>\$ (145,391)</u>

This schedule is prepared on a budgetary basis for the operating accounts of the enterprise fund and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.

MULTI-LAKE SEWER AUTHORITY
TOWNSHIPS OF DEXTER, LYNDON, UNADILLA AND
PUTNAM

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED MARCH 31, 2007



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

May 2, 2007

Authority Board
Multi-Lake Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

Honorable Authority Board:

In planning and performing our audit of the financial statements of the Multi-Lake Sewer Authority for the year ended March 31, 2007, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. That matter is as follows:

1. COMMENT

In reviewing the bank statements we noticed electronic payments of invoices.

RECOMMENDATION

The Authority should have a policy in place in order to make payments of invoices electronically.

This letter does not affect our report dated May 2, 2007 on the financial statements of Multi-Lake Sewer Authority.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and recommendation with various Authority personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants